

# Global Economic Development

## MAIN IDEA

**ECONOMICS** The economies of the world's nations are so tightly linked that the actions of one nation affect others.

## WHY IT MATTERS NOW

Every individual is affected by the global economy and the environment.

## TERMS & NAMES

- developed nation
- emerging nation
- global economy
- free trade
- ozone layer
- sustainable growth

**SETTING THE STAGE** At the end of World War II, much of Europe and Asia lay in ruins, with many of the major cities leveled by bombing. The devastation of the war was immense. However, with aid from the United States, the economies of Western European nations and Japan began expanding rapidly within a decade. Their growth continued for half a century, long after the United States ceased supplying aid. Advances in science and technology contributed significantly to this ongoing economic growth.

## Technology Revolutionizes the World's Economy

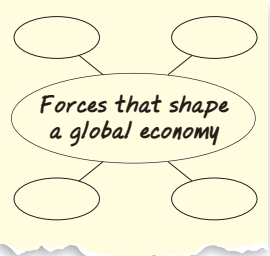
In both Asia and the Western world, an explosion in scientific knowledge prompted great progress that quickly led to new industries. A prime example was plastics. In the 1950s, a process to develop plastics from petroleum at low pressures and low temperatures was perfected. Within a few years, industries made a host of products easily and cheaply out of plastics. Other technological advances have also changed industrial processes, lowered costs, and increased the quality or the speed of production. For example, robotic arms on automobile assembly lines made possible the fast and safe manufacture of high-quality cars.

**Information Industries Change Economies** Technological advances in manufacturing reduced the need for factory workers. But in other areas of the economy, new demands were emerging. Computerization and communications advances changed the processing of information. By the 1980s, people could transmit information quickly and cheaply. Information industries such as financial services, insurance, market research, and communications services boomed. Those industries depended on “knowledge workers,” or people whose jobs focus on working with information.

**The Effects of New Economies** In the postwar era, the expansion of the world's economies led to an increase in the production of goods and services so that many nations benefited. The economic base of some nations shifted. Manufacturing jobs began to move out of **developed nations**, those nations with the industrialization, transportation, and business facilities for advanced production of manufactured goods. The jobs moved to **emerging nations**, those in the process of becoming industrialized. Emerging nations became prime locations for new manufacturing operations. Some economists believe these areas were chosen because

## TAKING NOTES

**Categorizing** Use a web diagram to identify the forces that have shaped the global economy.



they had many eager workers whose skills fit manufacturing-type jobs. Also, these workers would work for less money than those in developed nations. On the other hand, information industries that required better-educated workers multiplied in the economies of developed nations. Thus the changes brought by technology then changed the workplace of both developed and emerging nations.

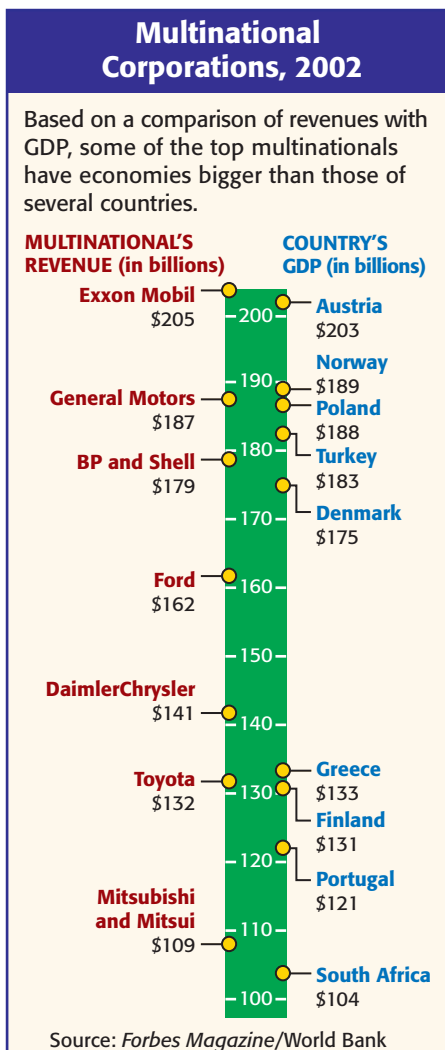
## Economic Globalization

Economies in different parts of the world have been linked for centuries through trade and through national policies, such as colonialism. However, a true global economy did not begin to take shape until well into the second half of the 1800s. The **global economy** includes all the financial interactions—among people, businesses, and governments—that cross international borders. In recent decades, several factors hastened the process of globalization. Huge cargo ships could inexpensively carry enormous supplies of fuels and other goods from one part of the world to another. Telephone and computer linkages made global financial transactions quick and easy. In addition, multinational corporations developed around the world. **A**

### MAIN IDEA

#### Analyzing Causes

**A** What elements helped to accelerate the process of globalization?



### SKILLBUILDER: Interpreting Graphs

- Comparing** Which has the larger economy, Poland or Ford?
- Clarifying** Which multinationals have an economy greater than that of South Africa but smaller than that of Portugal?

**Multinational Corporations** Companies that operate in a number of different countries are called multinational or transnational corporations. U.S. companies such as Exxon Mobil, General Motors, and Ford; European companies such as BP, DaimlerChrysler, and Royal Dutch/Shell; and Japanese companies such as Toyota, Mitsubishi, and Mitsui all became multinational giants.

All of these companies have established manufacturing plants, offices, or stores in many countries. For their manufacturing plants, they select spots where the raw materials or labor are cheapest. This enables them to produce components of their products on different continents. They ship the various components to another location to be assembled. This level of economic integration allows such companies to view the whole world as the market for their goods. Goods or services are distributed throughout the world as if there were no national boundaries.

**Expanding Free Trade** Opening up the world's markets to trade is a key aspect of globalization. In fact, a major goal of globalization is **free trade**, or the elimination of trade barriers, such as tariffs, among nations. This movement toward free trade is not new. As early as 1947, nations began discussing ways to open trade. The result of these discussions was the General Agreement on Tariffs and Trade (GATT). Over the years, several meetings among the nations that signed the GATT have brought about a general lowering of protective tariffs and considerable expansion of free trade. Since 1995, the World Trade Organization (WTO) has overseen the GATT to ensure that trade among nations flows as smoothly and freely as possible.

### Vocabulary

**tariff:** a tax on goods imported from another country

**Regional Trade Blocs** A European organization set up in 1951 promoted tariff-free trade among member countries. This experiment in economic cooperation was so successful that six years later, a new organization, the European Economic Community (EEC), was formed. Over time,

## World Trading Blocs, 2003

INTERACTIVE

- Andean Community (CAN)
- Asia-Pacific Economic Cooperation (APEC)
- Association of Southeast Asian Nations (ASEAN)
- Central American Common Market (CACM)
- Caribbean Community and Common Market (CARICOM)
- Commonwealth of Independent States (CIS)
- Council of Arab Economic Unity (CAEU)
- European Free Trade Association (EFTA)
- European Union (EU)
- Group of Eight (G8)
- Monetary and Economic Community of Central Africa (CEMAC)
- North American Free Trade Agreement (NAFTA)
- Organization of the Petroleum Exporting Countries (OPEC)
- Southern Common Market (MERCOSUR)
- Southern African Development Community (SADC)

### GEOGRAPHY SKILLBUILDER: Interpreting Maps

1. **Location** Which countries in OPEC are located outside of Southwest Asia?
2. **Location** To which world trade organizations does the United States belong?

most of the other Western European countries joined the organization, which has been known as the European Union (EU) since 1992. Several of the former Communist nations of Eastern Europe also have applied to become EU members.

Through this economic unification, Europe began to exert a major force in the world economy. The economic success of the EU inspired countries in other regions to make trade agreements with each other. The

North American Free Trade Agreement (NAFTA), put into effect in 1994, called for the gradual elimination of tariffs and trade restrictions among Canada, the United States, and Mexico. Organizations in Asia, Africa, Latin America, and the South Pacific have also created regional trade policies.

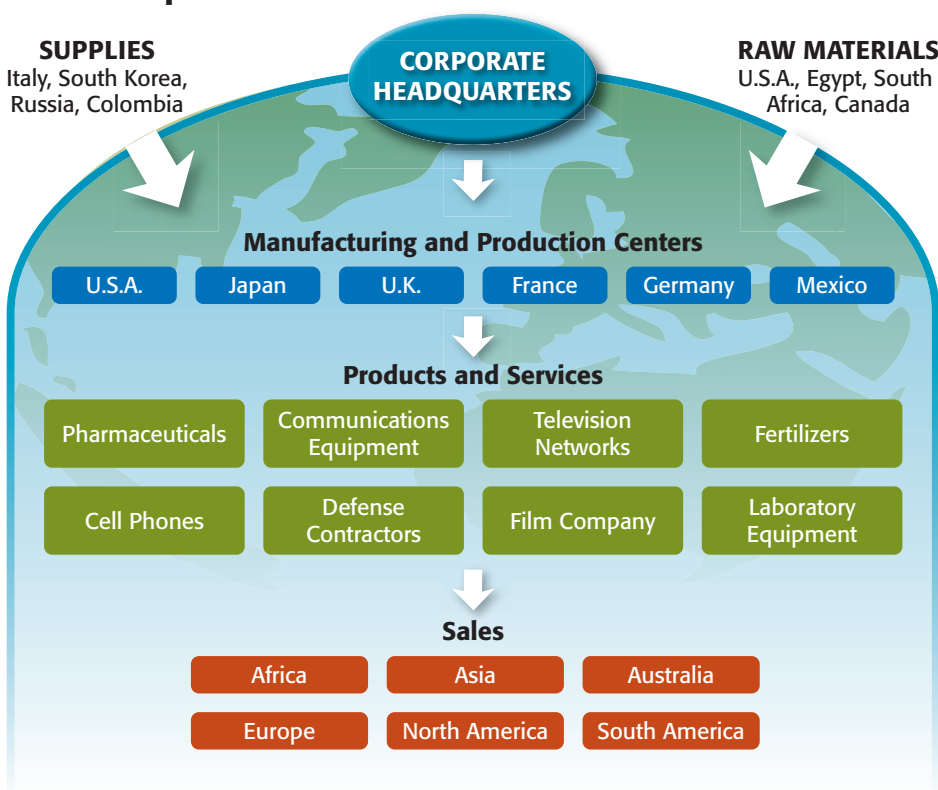
**Globalization—For and Against** In recent years, there has been considerable debate on the impact of globalization. Supporters suggest that open, competitive markets and the free flow of goods, services, technology, and investments benefit all nations. Globalization, they argue, has resulted in a dramatic increase in the standard of living across the world. Even some opponents agree that practically all nations have seen some benefit from globalization. However, they note that the developed nations have benefited the most. Other opponents charge that globalization has been a disaster for the poorest countries. They suggest that many poor countries are worse off today than they were in the past. They argue that investment practices, trade agreements, and aid packages must be designed to protect the interests of the poorest nations.

## > Analyzing Key Concepts

# Globalization

Globalization can be described in broad terms as a process that makes something worldwide in its reach or operation. Currently, globalization is most often used in reference to the spread and diffusion of economic or cultural influences. The graphics below focus on economic globalization. The first shows a global corporation. The second lists some arguments for and against economic globalization.

## Global Corporation



## Arguments for and Against Economic Globalization

| For   | Against   |
|---|---|
| • promotes peace through trade                    | • creates conflict because of an inherently unfair system   |
| • raises the standard of living around the world  | • benefits developed nations disproportionately             |
| • creates jobs in emerging countries              | • takes jobs from high-paid laborers in developed countries |
| • promotes investment in less developed countries | • benefits those who already have money                     |
| • creates a sense of world community              | • erodes local cultures                                     |

### INTEGRATED TECHNOLOGY

**RESEARCH LINKS** For more on globalization, go to [classzone.com](http://classzone.com)

## > DATA FILE

### INTERNATIONAL REGULATION

Many countries have joined international organizations to help regulate and stimulate the global economy. Such groups face the same criticisms against globalization in general.

#### World Trade Organization (WTO)

- Stated goal: "Help trade flow smoothly, freely, fairly, and predictably"
- 146 member nations; around 30 nations negotiating for admission (193 countries in the world)
- WTO members account for over 97 percent of world trade.

#### International Monetary Fund (IMF)

- Stated goal: "Promote international monetary cooperation; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries"
- 184 member countries
- In March 2003, IMF total resources were around \$300 billion.

#### The World Bank Group

- Stated goal: "A world free of poverty"
- 184 member countries
- In 2002, this group provided \$19.5 billion to emerging countries

## Connect to Today

**1. Making Inferences** How are money and culture related to each other when discussing globalization?

See Skillbuilder Handbook, page R11.

**2. Making Predictions** Will globalization continue or will another process replace it? Why or why not?

## Impact of Global Development

The development of the global economy has had a notable impact on the use of energy and other resources. Worldwide demand for these resources has led to both political and environmental problems.

**Political Impacts** Manufacturing requires the processing of raw materials. Trade requires the transport of finished goods. These activities, essential for development, require the use of much energy. For the past 50 years, one of the main sources of energy used by developed and emerging nations has been oil. For nations with little of this resource available in their own land, disruption of the distribution of oil causes economic and political problems.

On the other hand, nations possessing oil reserves have the power to affect economic and political situations in countries all over the world. For example, in the 1970s the Organization of Petroleum Exporting Countries (OPEC) declared an oil embargo—a restriction of trade. This contributed to a significant economic decline in many developed nations during that decade.

In 1990, Iraq invaded Kuwait and seized the Kuwaiti oil fields. Fears began to mount that Iraq would also invade Saudi Arabia, another major source of oil. This would have put most of the world's petroleum supplies under Iraqi control. Economic sanctions imposed by the UN failed to persuade Iraq to withdraw from Kuwait. Then, in early 1991, a coalition of some 39 nations declared war on Iraq. After several weeks of fighting, the Iraqis left Kuwait and accepted a cease-fire. This Persian Gulf War showed the extent to which the economies of nations are globally linked.

**Environmental Impacts** Economic development has had a major impact on the environment. The burning of coal and oil as an energy source releases carbon dioxide into the atmosphere, causing health-damaging air pollution and acid rain. Some scientists believe that the buildup of carbon dioxide in the atmosphere also has contributed to global warming.

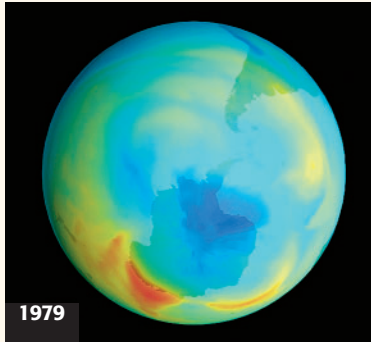
The release of chemicals called chlorofluorocarbons (CFCs), used in refrigerators, air conditioners, and manufacturing processes, has destroyed ozone in Earth's upper atmosphere. The [ozone layer](#) is our main protection against the Sun's damaging ultraviolet rays. With the increase in ultraviolet radiation reaching Earth's surface, the incidence of skin cancer continues to rise in many parts of the world. Increased ultraviolet radiation also may result in damage to populations of plants and plankton at the bases of the food chains, which sustain all life on Earth.

▼ During the 1991 Persian Gulf War, the Iraqis set hundreds of Kuwaiti oil wells ablaze. Smoke from these fires clouded the skies more than 250 miles away.

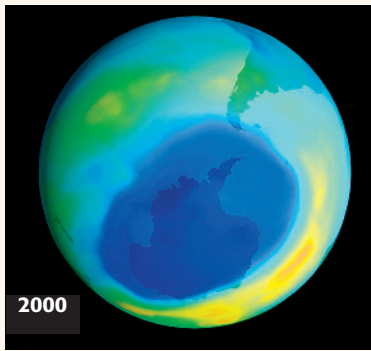


## Ozone Levels

A large area of the ozone layer has become much thinner in recent years.



1979



2000



Economic development has also led to problems with the land. Large-scale soil erosion is a worldwide problem due to damaging farming techniques. The habitat destruction that comes from land development has also led to shrinking numbers of wildlife around the world. At present, the extinction rate of plants and animals is about a thousand times greater than it would naturally be, and appears to be increasing. This high extinction rate means that certain species can no longer serve as an economic resource. The resulting loss of wildlife could endanger complex and life-sustaining processes that keep Earth in balance.

**“Sustainable Growth”** Working together, economists and scientists are looking for ways to reduce the negative effect that development has on the environment. Their goal is to manage development so that growth can occur, but without destroying air, water, and land resources. The concept is sometimes called “green growth.” Many people feel that the negative impact of economic growth on the environment will not be completely removed.

But “greener growth,” also known as **sustainable growth**, is possible. This involves two goals: meeting current economic needs, while ensuring the preservation of the environment and the conservation of resources for future generations. Making such plans and putting them into practice have proved to be difficult. But many scientists believe that meeting both goals is essential for the health of the planet in the future. Because the economies of nations are tied to their political climates, such development plans will depend on the efforts of nations in both economic and political areas. **B**

### MAIN IDEA

#### Clarifying

**B** What is meant by the term *sustainable growth*?

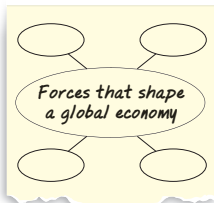
## SECTION 2 ASSESSMENT

**TERMS & NAMES** 1. For each term or name, write a sentence explaining its significance.

- developed nation
- emerging nation
- global economy
- free trade
- ozone layer
- sustainable growth

### USING YOUR NOTES

2. Which of these forces do you think has had the greatest impact on the development of a global economy?



### MAIN IDEAS

- Why are “knowledge workers” becoming more important in the developed nations?
- What impact did the economic success of the EU have on other regions of the world?
- How has global economic development affected the environment?

### CRITICAL THINKING & WRITING

- RECOGNIZING EFFECTS** In what ways has technology changed the workplace of people across the world?
- ANALYZING MOTIVES** Why might some nations favor imposing tariffs on the imports of certain products?
- SUPPORTING OPINIONS** Do you think that sustainable growth is possible? Why or why not?
- WRITING ACTIVITY** **ECONOMICS** Make a survey of the labels on class members’ clothing and shoes. List the countries in which these items were produced. Write a short **explanation** of how the list illustrates the global economy.

### CONNECT TO TODAY CREATING A POSTER

Recycling is an important aspect of sustainable growth. Create a **poster** encouraging local businesses to recycle cans, paper products, and plastics.